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Outlook for the Economy and Real Estate

Forecasting & Policy
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The Outlook for the Economy and Real Estate

Growth of the economy slowed considerably in the second quarter as real or inflation adjusted Gross National Product (GNP) increased at an anemic 1.1 percent annual rate. This compares to a revised 3.8 percent growth rate for the first quarter. In response to the run-up in inventories during the first quarter, a major inventory correction occurred during the second quarter, dampening overall growth. While aggregate demand, particularly consumer spending, has been strong in response to declining interest rates and lower energy prices a large part of this demand continues to be satisfied by existing inventories and imports. As a result domestic production has weakenened and our trade deficit has continued to deteriorate. The economy is expected to rebound during the second half of this year, however, this pick-up in growth should be mild in both strength and duration. Consumption, a source of strength in the first half, should begin to slow while the contribution of residential investment to GNP growth also is expected to subside. While the weakness in business investment spending is likely to continue both net exports and inventory investment are expected to add modestly to growth during the second half. Overall, growth during the third quarter should be about 2.6 percent, rising slightly to 2.8 percent during the fourth quarter. For all of 1986 growth is expected to be 2.7 percent, the same as 1985. Both Gramm-Rudmann-Hollings (GRH) and tax reform are likely to have adverse effects on aggregate demand through the remainder of 1986 and into 1987. Although the House-Senate Conference Committee must still work out the details, the final bill appears certain to kill the Investment Tax Credit, raise post-tax construction costs and boost corporate taxes by $15-$20 billion annually, leading to a dampening of investment spending. These factors in addition to the fact that this recovery is in its fourth year should cause GNP growth to slow to an annual rate of 1.5 percent in 1987.

The various sectors of the economy experienced sharply contrasting growth patterns from the first to the second quarter. Here are some highlights of the first half of 1986:

		Contribution to Growth (Percentage Points)	
		1st Quarter	2nd Quarter
0	Consumer Expenditures were quite strong in the first half of 1986 as massive refinancing of long-term debt at lower interest rates and lower energy prices left consumers with more money to spend on other goods and services.	2.3	3.8
0	Residential Investment remains one of the few bright spots in the economy as lower mortgage interest rates continue to stimulate demand for housing.	0.5	0.7
0	Net export growth improved during the first quarter, resulting in most of the unexpected upward revision to GNP growth. However, this trend was reversed in the second quarter as imports increased a sharp 20 percent, due largely to increases in petroleum imports, while exports rose a meager 3 percent. A further deterioration in the nation's trade deficit resulted.	0.7	-2.2

0	Business investment has remained weak during the first half of 1986. Firms apparently accelerated their spending at the end of last year to take advantage of investment incentives that might be repealed or scaled back by the current tax reform legislation. Further, cut-backs in domestic oil production have reduced investment in structures (i.e., oil rigs), exacerbating the continued weakness in business investment.	-2.1	-0.3
0	Government Purchases for goods and services declined during the first quarter as the government attempted to stay within the range of the GRH deficit targets. However, government purchases rebounded during the second quarter due in large part to increases in government expenditures in the form of Commodity Credit Corporation (CCC) purchases and defense spending. CCC is a federal program whereby the government purchases crops at support prices.	-2.6	1.4
0	The change in business inventories was largely responsible for the upturn in growth in the first quarter and the subsequent downturn in the second. Businesses accumulated large inventories during the first quarter, boosting GNP growth by 5.1 percent. However, during the second quarter, businesses were able to trim these unwanted inventories, subtracting 2.2 percentage points from GNP growth.	5.1	-2.2
	Total	3.8	1.1

The depreciation of the dollar has yet to significantly benefit sales of U.S.-produced goods domestically or abroad. It was expected that a lower value of the dollar relative to other currencies would stimulate sales of U.S. exports, discourage demand for imports and lead to an improvement in the trade balance. So far, however, these events have failed to occur for a variety of reasons:

- While the dollar has depreciated sharply against the Japanese yen and the German mark, a large and increasing portion of our imports come from the "Four Tigers" (Taiwan, South Korea, Hong Kong and Singapore) whose currencies have not appreciated relative to the dollar.

- In many of those countries against whose currencies the dollar has depreciated, economic growth has been slow and as a result demand for U.S. exports remains sluggish.

- Many firms exporting to the U.S. have sacrificed some of their profits rather than raise prices. On the other hand, domestic firms facing foreign competition have raised their prices in attempts to improve profit margins rather than regaining market share.

- Many products imported from Japan are subject to explicit or implicit voluntary quotas. Many Japanese firms would like to and could export a lot more than their allotted quota, so that even if they do increase prices they very likely could continue exporting the same volume of products to the U.S.

- The lower prices for imported oil have increased demand for petroleum imports which were largely responsible for the strong growth in imports during the second quarter.

- The magnitude of the dollars' depreciation may be overstated. The current trade-weighted exchange rate reported by the FED is outdated. If this index were revised to take account of the more recent trade patterns with countries like the "Four Tigers", then the dollar would have probably declined only 10 percent over the past year instead of 30 percent.

The record U.S. trade deficit should begin to improve by next year as export growth picks up relative to the growth in imports. Contributing to this improvement will be weaker growth in the U.S. that will slow the demand for imports and stronger foreign expansions which should boost demand for U.S. exports.

The civilian unemployment rate fell from 7.1 percent to 6.9 percent in July as a result of strong growth in employment accompanied by a decline in the size of the labor force. This improvement is deceiving, however, as about 150,000 of the 390,000 increase in nonfarm payroll employment was due to striking workers returning to work. Further, while the service sector continues to experience healthy employment gains, after accounting for returning strikers in July, manufacturing employment fell for the fourth consecutive month. The unemployment rate should remain above 7 percent for the remainder of this year. However, as growth slows in 1987, growth in employment should decline, boosting the unemployment rate to above 7-1/2 percent.

The key factor restraining inflation over the past several months has been the decline in oil prices. For all of 1986 the inflation rate should be about 2 percent compared to 3.5 percent for 1985. The benefit of cheaper oil is subsiding so that inflation is expected to accelerate modestly over the remainder of this year and through 1987 and 1988. However, the outlook for inflation remains favorable as wage growth continues to be modest. Average hourly earnings have increased only 2.6 percent over the past year. This compares to a 3.1 percent rate of increase over the previous 12 month period. Also, sluggish growth in production has kept the utilization rate of the nation's factories well below the rate normally associated with inflationary pressures. As a result inflation should accelerate to about 3.0 percent in 1987 and 3.8 percent in 1988.

The Federal Deficit

The federal deficit has re-emerged as a major topic of conversation as sluggish growth of the economy has boosted the federal deficit for FY1986. The second quarter deficit was revised up by $50 billion dollars at an annual rate, raising the expected FY1986 deficit to about $220 billion. Despite the enactment of GRH the FY1986 deficit is likely to be the highest in history. If the GRH deficit

target of $172 billion for fiscal year 1986 is not met it will make it even more difficult to reach the $144 billion required for FY1987. Further, tax reform is expected to result in revenue losses starting 1988, making the task of meeting the GRH targets even more difficult. Just for FY1987 spending reductions of roughly $60 billion are required, making GRH unworkable. All is not lost, however, since the deficit should be below what it otherwise would have been if Congress had failed to address the issue of spiraling federal deficits.

Earlier this month, the GRH provision calling for the Comptroller General of the General Accounting Office (GAO) to compute automatic cuts in spending if Congress is unable to meet those targets was found unconstitutional by the Supreme Court. However, the Senate has passed a provision that would allow the Office of Management and Budget(OMB) instead of GAO to implement automatic across-the-board cuts in spending. If the House also agrees that OMB can make the automatic cuts in spending then the pressure will be off Congress to decide where to cut. If the House does not agree with the Senate, then much of the teeth will have been taken out of GRH. Without the threat of automatic cuts Congress appears to have little appetite for making the large spending cuts required to meet the GRH targets.

Monetary Policy

The FED reduced its discount rate one-half percentage point to 6 percent effective July 11; its lowest level since January 1978. This was the third cut in the discount rate this year. The FED action was taken partly in recognition of the decline in market interest rates but also to help spur the sluggish economy. Interest rates continue to be volatile, especially at the long end of the market. The bond market remains nervous as the quarterly refunding by Treasury takes place and the appetite of Japanese investors for U.S. securities remains uncertain. The 30-year bond rate, which was back down to about 7.1 percent in mid-July, is now back up to 7 1/2 percent. Further, mixed signals about the strength of the economy continue to to add to market jitters. Despite this set back, interest rates should decline gradually over the remainder of this year and through 1987. The 30-year treasury bond rate is expected to decline to about 7.1 percent by the end of this year and to 6.9 percent by the end of 1987. The 3 month T-Bill is expected to decline to 5.7 percent by the end of this year and to 5.6 percent by the end of 1987.

Paul Volcker, Chairman of the Federal Reserve Board, testified before the Senate Banking Committee on the Federal Reserves' mid-year report to Congress. The FED voiced concern about the sluggishness of economic growth and has chosen to temporarily ignore the rapid growth in the nation's basic money supply, M1. However, despite the easing of monetary policy, evidence suggests that during the current period of sluggish growth the FED is not being aggressive enough. In a period of lower inflation expectations accompanied by tax reform and fiscal restraint, the nominal or market interest rates should be falling as much if not more, leaving the real (inflation-adjusted) interest rate unchanged or lower. This is not expected to occur. In fact, long-term real interest rates are actually expected to rise over the next few months.

Volcker also suggested that the FED is no longer going to wait for West Germany and Japan to lower their interest rates. Instead, the U.S. will take the lead if domestic economic conditions warrant. As a result, further reductions in U.S. interest rates relative to foreign interest rates are likely to lead to further declines in the dollar. This in turn would have a negative impact on the trade balance of these countries and so is likely to induce them to follow easier monetary policies.

Real Estate Markets

The market for existing single-family homes has remained healthy. While the seasonally adjusted annual rate of existing single-family homes sales has leveled off in the last several months, the pace of about 3.47 million homes has been substantially ahead of last year's. Single family starts also remained robust with a seasonally adjusted annual rate of 1.23 million homes started during the second quarter.

Regionally, the Midwest has experienced the strongest growth in existing home sales over the past year with a 15 percent increase. The Northeast follows with a 13.3 percent increase over last year. While the South recorded a healthy pace of 10.2 percent, the West exhibited only modest growth in home sales with a 3.7 percent increase over last year.

Despite the decline in mortgage rates expected for the remainder of this year and into 1987, the pace of both resales and single family starts should begin to slow. The slowdown in single family starts and sales will be due to slower growth compounded by tax reform as homebuyers adjust to increases in after-tax homeownership costs. For all of 1986 about 3.45 million homes will likely be sold while about 1.25 homes will be started. By 1987, resales should remain near the 3.4 million level instead of rising to above the 3.5 million level projected before tax reform was incorporated into the forecast.

Home prices continue to increase at a healthy pace with the median home price for June up 7.6 percent over last year. The pace of appreciation should remain strong through the remainder of 1986 with an annual rate of increase of 8.0 percent expected for the year. As the demand for housing levels off and effects of tax reform are felt, the rate of appreciation of homes should slow to about 5 percent in 1987 and 1988.

Tax reform will pose an interesting problem to loan underwriters. As the marginal tax rates decline the cost of owning your own home rises relative to other goods. Therefore the "rule-of-thumb" debt service-to-income ratio of 28 percent is likely to be lowered because under tax reform the value of the mortgage interest and property tax deductions will be reduced causing after-tax homeownership costs to rise as a percentage of the homeowners after-tax income.

The most hard hit sectors of real estate will be multi-family units and office and commericial construction. Not only will tax reform seriously depress these areas of investment but rising vacancy rates in both rental and office units will also further dampen construction. Multi-family starts have already begun to decline in anticiapation of the adverse effects of tax reform.

EQUAL HOUSING OPPORTUNITY

Table 1 August 1986

U.S. ECONOMIC OUTLOOK

	QUARTERS							YEARS				
	Actual		Forecast					Actual		Forecast		
	1986.1	1986.2	1986.3	1986.4	1987.1	1987.2	1987.3	1987.4	1984	1985	1986	1987	1988
AGGREGATE ECONOMY													
Gross National Product (GNP)													
(billions of dollars)	4,149	4,182	4,233	4,290	4,322	4,364	4,404	4,447	3,765	3,998	4,214	4,384	4,609
% Change	6.2	3.2	4.9	5.4	3.1	3.9	3.7	3.8	10.5	6.2	5.4	4.0	5.1
% Change (w/out inflation)	3.8	1.1	2.6	2.8	0.6	1.3	1.0	1.1	6.4	2.7	2.7	1.5	2.5
Consumption	3.6	5.9	3.1	2.6	0.8	1.1	1.0	0.4	4.7	3.5	3.7	1.8	1.9
Durables	-1.8	14.8	4.7	4.0	-6.6	-0.5	0.2	-1.4	12.7	7.8	3.9	0.3	2.3
Nondurables	6.5	7.1	2.6	2.0	1.8	1.1	0.9	0.7	3.6	1.6	4.0	1.9	1.7
Services	3.2	2.5	3.1	2.5	2.3	1.5	1.2	0.7	3.4	3.7	3.5	2.1	1.8
Residential Investment	11.0	15.4	2.4	-0.8	-7.6	-9.7	-8.2	-5.3	14.3	3.9	8.3	-4.2	-1.9
Nonresidential Investment	-15.1	-2.6	2.7	4.2	-0.4	-1.3	-0.6	-2.6	16.9	9.3	0.7	0.3	-0.3
Structures	-10.8	-35.7	2.5	5.9	2.3	2.8	2.6	1.5	11.1	7.7	9.7	0.0	2.0
Equipment	-17.0	17.1	2.8	3.4	-1.5	-3.0	-2.0	-4.2	20.0	10.1	3.8	0.5	-1.4
Exports	7.1	3.0	4.6	5.6	6.1	6.0	6.0	6.0	6.2	-2.0	3.4	5.6	5.2
Imports	0.2	20.1	3.9	2.6	-1.3	-2.7	-3.1	-3.8	23.2	3.8	9.6	0.6	-1.6
Government Purchases	-12.3	7.0	3.2	9.9	-8.3	0.4	3.2	7.3	4.0	6.8	2.9	1.3	0.7
Contribution to GNP Growth (Percentage Points)													
Consumption	2.3	3.8	2.0	1.7	0.5	0.7	0.6	0.2	2.4	2.3	2.5	0.5	1.6
Residential Investment	0.5	0.7	0.1	0.0	-0.4	-0.5	-0.4	-0.3	0.2	0.4	0.3	-0.4	0.1
Nonresidential Investment	-2.1	-0.3	0.3	0.5	-0.1	-0.2	0.1	0.3	1.7	0.8	0.4	-0.2	0.0
Structures	-0.5	-1.7	0.1	0.2	0.1	0.1	0.1	0.1	0.5	0.1	-0.5	0.1	0.0
Equipment	-1.6	1.4	0.2	0.3	-0.1	-0.3	-0.2	-0.4	1.2	0.7	0.1	-0.2	0.0
Inventory Change	5.1	-2.2	-0.5	-1.4	1.5	0.2	-0.8	1.1	0.2	-1.1	0.2	-0.1	0.2
Net Exports	0.7	-2.2	-0.1	0.2	0.8	1.0	1.1	1.2	-1.4	-1.1	-0.4	1.0	0.5
Government Purchases	-2.6	1.4	0.6	1.9	1.8	0.1	0.6	1.4	1.5	1.6	0.3	0.1	0.1
Mfg. Capacity Utilization Rate	79.9	79.1	78.9	79.1	78.5	78.2	77.8	77.5	80.8	80.3	79.2	78.0	78.0
Domestic Auto Sales	7.8	8.1	7.8	7.5	7.3	7.2	7.1	7.0	8.0	8.2	7.8	7.2	7.0
Personal Income Per Household	41,477	41,945	42,131	42,521	42,929	43,298	43,663	44,034	38,154	40,285	42,011	43,487	45,392
Percent Change -- Year Ago	4.5	4.5	4.4	3.8	2.3	2.8	2.7	2.6	11.5	5.6	4.3	3.5	4.4
Personal Taxes Per Household	6,011	6,036	6,098	6,186	6,176	6,262	6,348	6,433	5,393	5,913	6,082	6,306	6,067
Percent Change -- Year Ago	2.2	2.3	2.5	2.9	2.3	2.7	2.6	4.2	13.3	9.6	2.9	3.7	-3.8
Percent of Personal Income	14.5	14.4	14.5	14.5	14.4	14.5	14.5	14.6	14.1	14.7	14.5	14.5	13.4
Disposable Personal Income Per Household	35,466	35,909	36,033	36,335	36,753	37,036	37,315	37,600	32,761	34,372	35,929	37,181	39,324
Percent Change -- Year Ago	5.5	3.8	4.8	4.1	2.4	2.8	2.7	2.5	9.0	4.9	4.5	3.5	5.8
Employment (millions)	108.8	109.2	109.4	109.7	109.6	109.7	109.8	110.0	105.0	107.2	109.3	109.8	111.0
(civilian:household basis)													
% Change	2.9	1.7	0.6	1.1	-0.2	0.2	0.5	0.4	4.1	2.1	2.0	0.5	1.1
Unemployment Rate (%) (civilian)	7.1	7.2	7.3	7.2	7.5	7.8	7.9	8.0	7.5	7.2	7.2	7.8	7.7
Consumer Prices (CPI)	1.4	-1.7	3.0	3.1	3.7	3.5	3.6	3.7	4.3	3.5	2.0	3.1	3.8
GNP Deflator	2.5	2.1	2.3	2.5	2.5	2.6	2.7	2.8	3.9	3.3	2.7	2.5	3.1
Personal Consumption Inflation	1.1	1.1	3.2	3.2	3.6	3.3	3.3	3.5	3.8	3.5	2.1	3.1	3.6
Residential Construction Inflation	3.0	3.3	2.9	3.0	3.4	3.5	3.6	3.8	4.1	1.8	3.0	3.3	4.1
Nonresidential Construction Inflation	3.7	0.9	0.8	1.7	2.5	3.1	3.3	3.2	-0.2	0.7	1.3	2.3	3.5
Producer Price Inflation	-5.8	-5.1	1.4	2.0	3.6	3.4	3.5	3.9	2.1	0.9	-1.3	2.4	3.9
Before-Tax Corporate Profits	224	234	247	266	253	252	252	261	236	223	243	254	269
Corporate Tax Liability	89	93	105	114	138	137	117	120	95	92	100	128	123
After-Tax Profits	135	141	141	153	115	116	136	140	140	131	143	127	146
Inventory Valuation Adjustment	17	8	-1	-1	-6	-5	-3	-5	-6	-1	-5	-5	-5
Capital Consumption Allowance	56	51	53	51	49	46	43	40	35	58	53	45	32
Federal Tax Receipts (NIPA)	800	803	823	838	869	877	866	878	727	787	816	872	862
% of GNP	19.3	19.2	19.4	19.5	20.1	20.1	19.7	19.7	19.3	19.7	19.4	19.9	18.7
Federal Expenditures (NIPA)	1,002	1,040	1,033	1,066	1,049	1,057	1,075	1,102	897	985	1,035	1,071	1,112
% of GNP	24.1	24.9	24.4	24.9	24.3	24.2	24.4	24.8	23.8	24.6	24.6	24.4	24.1
Deficit(NIPA)	-202	-236	-210	-228	-180	-181	-210	-225	-170	-198	-219	-199	-250
% of GNP	4.9	5.7	5.0	5.3	4.2	4.1	4.8	5.1	4.5	4.9	5.2	4.5	5.4
% of Net Domestic Savings	59.7	72.6	72.5	78.2	70.5	72.1	78.7	84.3	51.8	63.4	70.4	76.5	81.3

Source: Forecast produced using Laurence H. Meyer and Associates' model of the U.S. economy
Assumptions and simulations by Dr. Richard Peach, Jannemarie Mulvey, and Sean Burns

Table 2

August 1986

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS							YEARS				
	Actual		Forecast					Actual		Forecast		
	1986.1	1986.2	1986.3	1986.4	1987.1	1987.2	1987.3	1987.4	1984	1985	1986	1987	1988
REAL ESTATE MARKETS													
Total Single-Family Home Sales (single-family resales and completions)	4,472	4,670	4,740	4,776	4,654	4,583	4,505	4,416	3,933	4,254	4,665	4,540	4,562
Percent Change -- Year Ago	11.3	14.5	8.3	5.2	4.1	-1.9	-4.9	-7.5	5.1	8.2	9.6	-2.7	0.5
Existing Single-Family Home Sale	3,257	3,470	3,525	3,567	3,512	3,461	3,410	3,337	2,868	3,214	3,455	3,430	3,446
Percent Change -- Year Ago	10.3	14.0	4.9	1.9	7.8	0.3	-3.3	-6.4	5.7	12.1	7.5	-0.7	0.5
Dollar Volume (billions)	307	349	355	355	350	360	360	350	247	291	342	355	376
Existing Home Prices - Median ($1000's)	78.1	81.9	83.3	82.6	82.8	85.9	87.1	86.6	72.4	75.5	81.5	85.6	89.8
Percent Change -- Year Ago	4.6	8.5	8.7	9.8	6.0	4.9	4.5	4.8	3.0	4.3	7.9	5.0	4.9
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	583	586	542	524	500	513	521	511	618	609	559	511	515
Percent of Median Family Income	25.2	24.8	23.8	22.7	22.3	22.7	22.8	22.2	33.4	29.7	24.1	22.5	21.7
Housing Starts (1000's)	1,998	1,908	1,830	1,834	1,747	1,660	1,627	1,592	1,763	1,741	1,908	1,656	1,671
Percent Change -- Year Ago	13.4	9.5	12.0	3.4	-8.4	-12.2	-11.3	-8.9	3.4	-1.2	9.5	-13.2	0.9
Single-Family Units (1000's)	1,253	1,237	1,252	1,247	1,177	1,157	1,129	1,113	1,100	1,073	1,247	1,144	1,150
Percent Change -- Year Ago	14.0	15.8	19.5	16.1	-4.8	-7.6	-9.4	-5.5	3.3	-2.5	16.3	-8.3	0.5
Multi-Family Units (1000's)	746	671	638	587	570	503	498	479	663	669	650	512	521
2-4 Family Units	102	80	75	70	67	60	59	57	122	93	82	61	62
Percent Change -- Year Ago	0.7	-21.6	-15.5	-12.8	-15.7	-21.1	-15.3	-15.9	7.0	-23.4	-12.2	-25.8	1.7
5+ Family Units	644	591	562	518	502	443	439	422	542	576	569	452	459
Percent Change -- Year Ago	14.7	3.3	2.2	-16.5	-15.0	-21.2	-15.2	-15.9	2.8	6.2	0.5	-21.9	1.7
Mobile Homes Shipped	262	241	246	249	243	244	243	243	295	283	250	243	254
New Single Family Home Sales (1000's)	782	725	695	688	668	673	670	663	636	688	722	668	644
Percent Change -- Year Ago	17.2	6.6	-2.3	-1.1	-14.6	-7.2	-3.6	-3.6	1.7	8.1	4.9	-7.5	-3.7
New Home Prices -- Median ($1000)	88.0	91.6	93.4	95.1	95.1	95.2	95.1	95.1	80.0	84.3	92.0	95.1	98.5
Percent Change -- Year Ago	6.2	9.0	12.0	9.6	8.1	4.0	1.8	0.0	6.0	5.4	9.1	3.4	3.6
New Home Prices -- Mean ($1000's,Quality Adj.)	104.5	107.9	113.5	109.7	107.5	111.4	117.3	113.6	96.8	104	108.9	112.5	117.1
Percent Change -- Year Ago	3.7	4.3	3.1	5.0	-0.4	-1.9	6.9	5.7	1.6	7.4	4.7	3.3	4.1
NAR Affordability Index	100.6	101.2	104.7	109.9	111.9	110.0	109.2	112.3	89.1	95.5	104.1	110.9	114.9
Mortgage Debt Outstanding($ billions)	2,309	2,389	2,409	2,478	2,555	2,629	2,702	2,775	1,946	2,202	2,396	2,665	2,960
Housing Inventory (millions)	96.3	96.8	97.3	97.7	98.2	98.6	99.1	99.5	93.4	95.2	97.0	98.8	100.5
Rental Vacancy Rate (%)	6.9	7.1	7.0	6.9	6.9	6.8	6.7	6.7	5.8	6.5	7.0	6.8	6.6
Office Vacancy Rate (%)<1>	16.6	16.8	16.8	16.9	17.0	16.8	16.7	16.6	13.9	16.0	16.8	16.8	16.4
Industrial Vacancy Rate (%) <1>	4.9	4.8	4.6	4.5	4.3	4.3	4.2	4.2	4.7	4.7	4.7	4.3	4.0
FINANCIAL MARKETS													
Money Supply (M1)(% change)	7.9	16.7	11.0	8.2	5.6	5.6	4.7	5.0	7.0	9.1	11.6	7.2	5.7
Velocity of M1 (% change)	-1.6	-11.5	-5.5	-2.5	-2.4	-1.6	-0.9	-1.1	3.3	-2.6	-5.6	-3.0	-0.5
Value of the U.S. Dollar (Trade-Weighted)	119.5	114.2	110.0	108.7	107.5	106.3	105.1	103.8	138.3	143.2	113.1	105.7	103.8
Percent Change	-24.5	-16.5	-14.0	-4.5	-4.5	-4.5	-4.5	-4.5	10.4	3.5	-21.0	-6.6	-1.7
Flow of Funds (NIA Basis) (Billions of dollars,saar)													
Sources:(total gross savings)													
Private Saving	715	719	690	696	667	671	697	705	675	688	705	695	765
Personal Saving	146	156	128	120	131	129	129	132	169	143	137	130	176
Savings Rate	5.0	5.2	4.3	4.0	4.3	4.2	4.1	4.2	6.3	5.1	4.6	4.2	5.3
Gross Business Savings	569	563	562	576	536	542	568	574	506	544	568	555	588
Federal Deficit	-202	-236	-210	-228	-180	-181	-210	-225	-170	-198	-219	-199	-250
State & Local	70	59	57	59	58	56	55	55	69	62	61	56	56
Net Foreign Investment	129	134	135	143	144	148	148	146	91	115	135	146	142
Uses (total gross investment)	708	691	694	688	703	703	695	684	662	661	696	696	715
Nonresidential Investment	458	455	458	463	462	461	460	457	422	461	458	460	458
Structures	148	133	133	135	136	137	138	138	141	152	137	137	140
Equipment	310	322	324	327	326	323	322	318	281	309	321	322	318
Residential Investment	186	193	194	194	190	185	181	178	171	177	192	184	180
Inventory Investment ($ Billions)	40	20	15	2	16	18	10	-0	59	9	19	11	10
Selected Interest Rates (%)													
Mortgage Rates													
30-year Fixed Rate Mortgage<2>	10.4	9.9	9.5	9.2	9.1	9.0	9.0	8.9	13.8	12.2	9.7	9.0	8.6
Real Mortgage Rate	7.4	7.3	7.4	7.4	6.7	6.9	7.2	7.4	9.6	8.5	7.3	7.0	6.9
1-year ARM (without buydown)	9.2	8.3	8.0	7.9	7.8	7.8	7.7	7.7	12.6	10.1	8.4	7.8	7.7
Real Mortgage Rate	6.2	5.7	5.9	6.1	5.4	5.7	5.9	6.2	8.2	6.4	6.0	5.8	6.0
Corporate AAA Bond Rate	9.6	9.0	8.8	8.7	8.6	8.3	8.3	8.2	12.7	11.4	9.0	8.3	7.9
Government Bond Rate	8.9	7.5	7.3	7.1	6.9	7.0	6.9	6.9	12.5	11.0	7.7	6.9	6.6
Real Government Bond Rate	5.9	4.9	5.1	5.3	4.5	4.9	5.1	5.4	12.5	7.3	5.3	4.9	4.8
Federal Funds Rate	7.8	6.9	6.4	6.3	6.3	6.2	6.2	6.1	10.2	8.1	6.9	6.2	6.1
3-month T-Bill Rate	7.0	6.1	5.9	5.8	5.7	5.7	5.6	5.6	9.5	7.5	6.2	5.7	5.5
Real 3-month T-Bill Rate	4.5	4.0	3.6	3.3	3.2	3.1	2.9	2.8	5.6	4.2	3.5	3.2	2.4
1-Year T-Bill Rate	7.5	6.6	6.3	6.2	6.1	6.1	6.0	6.0	10.9	8.4	6.7	6.1	6.0
Real 1-Year T-Bill Rate	5.0	4.5	4.0	3.7	3.6	3.5	3.3	3.2	7.0	5.1	4.0	3.6	2.9
Prime Rate	9.4	8.6	8.3	8.2	8.1	8.1	8.0	7.8	12.0	9.9	8.6	8.1	7.5
Discount Rate	7.4	6.6	6.0	6.0	5.8	5.8	5.8	5.7	8.8	7.7	6.5	5.8	5.7

<1> Historical Data courtesy of Coldwell Banker
<2> FHA Secondary Mortgage Market Rate

Source: Forecast produced using Laurence H. Meyer and Associates' model of the U.S. economy
Assumptions and simulations by Dr. Richard Peach, Janemarie Mulvey, and Sean Burns